THE REGIONAL MUNICIPALITY OF HALTON

1982 POST AUDIT COMMENTS MEMORANDUM

Clarkson Gordon

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June 23, 1983

Mr. J. Raftis,
Chairman,
The Regional Municipality of Halton,
P.O. Box 7000,
1151 Bronte Road,
Oakville, Ontario.
L6J 6E1

Dear Mr. Raftis:

We have recently completed our audit of the financial statements of The Regional Municipality of Halton for the year ending December 31, 1982. During our interim audit, we studied and evaluated the Region's systems of internal control to the extent we considered necessary under generally accepted auditing standards. At the conclusion of this work we reported to you certain areas where internal controls could be strengthened.

During the remainder of our examination, we observed additional areas where internal controls could be strengthened. We have discussed these areas with Chief Administrative Officer, Mr. Dennis Perlin, and Regional Treasurer, Mr. Joseph Rinaldo and offered several suggestions in this connection. We have summarized our observations, recommendations and the comments of Region management in the attached memorandum of post audit comments for your information and further consideration.

For your convenience we have divided the memorandum into three sections:

Part A - Major internal control observations reported for the first time.

Part B - Major recommendations repeated from prior memoranda.

Part C - Major observations and recommendations reported in prior memoranda and their resolution.

All suggestions and comments outlined in the memorandum concern systems and are not intended to reflect in any way upon your personnel.

Should you wish to discuss the memorandum further, we would be pleased to do so at your convenience.

Yours faithfully,

Clarkson Gordon

W.M. Willson/S.R. Stone:lbc
Encls.

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PART A - Major internal control observations reported for the first time

Observation of existing system	Recommendation	Management comments
1. Ministry of Environment Debt Retirement Funds The Region has completed seven projects in the Burlington area that were financed by the Ministry of Environment. Each project has a separate debt retirement fund. Six of these funds are in a surplus position and one fund is in a deficit position. The surpluses, which arose as a result of interest earned on the funds rather than overpayments, can be applied to eliminate the deficit in the remaining fund. The Region is making unnecessary payments to the Ministry of Environment.	The Region should apply for termination of the debt retirement funds.	This matter has been dealt with per FIN.112-82. The termination agreement has been signed by the Regional Chairman and Minister of the Environment. Debt charges to the Region have been reduced through the application of surplus balances to deficit balances.
2. Water Revenues - Milton The finance department uses water production and consumption statistics to monitor the completeness of monthly water revenues. For the Milton area the water production and consumption statistics indicated inconsistencies during the year. These inconsistencies were not followed up on a timely basis.	The reasons for the inconsistencies in the water production statistics should be investigated. Abnormalities in the data trends should be followed up on a timely basis.	This matter has already been addressed by Public Works staff. Invalid pumpage statistics from the Milton area, are the result of malfunctioning remote readers monitoring the volumes pumped through large pit meters. To correct the problem, actual pit meter readings have commenced in 1983.
3. Purchasing (i) For goods and services purchased on a frequent basis, blanket purchase orders are issued in lieu of individual purchase orders. Some blanket purchase orders do not have a maximum spending ceiling. It is possible that the amount paid by the Region could exceed the total amount budgeted.	All blanket purchase orders should have either a maximum per purchase order amount or maximum annual ceiling. The amounts spent on these blanket P.O.'s should be monitored so the requisitioning departments are aware if they are approaching their ceilings.	(i) Agreed. Maximum dollar amounts will be included on all blanket purchase orders issued in 1984.

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PART A - Major internal control observations reported for the first time	Recommendation	Management comments
Observation of existing system		
3. Purchasing (Continued) (ii) Invoices from suppliers are not approved for payment until they are matched with a purchase order, which shows the goods or services were authorized, and a receiving document, which shows the goods or services were received. However, invoices are often received before purchase orders have been issued. This can result in the following problems: (i) This requires accounts payable staff to invest considerable time gathering the appropriate documentation before the invoice is recorded and paid. (ii) The Region is required to keep their books open longer than necessary in order to ensure that there is a proper cut-off. (iii) This may cause a one or two month delay in receiving subsidy revenue from the provincial government with respect to expenditures which are recoverable.	The procedures over issuing purchasing orders should be reviewed to determine those cases where goods or services can be purchased before a purchase order is issued (i.e. emergency) and once determined, decide how these special purchase orders are to be handled.	(ii) We are presently reviewing this situation. A revised Purchasing By-law draft does include a clearer definition of emergency purchases. When approved this will allow procedures to be implemented which should minimize the observed problem.
4. Records Maintenance In certain areas within the finance department, the filing and maintenance of records has become inadequate. An orderly and organized record retention system is essential to an effective and efficient information system.	A review should be made of record retention requirements, taking into consideration the purpose of documentation, statutory requirements, length of time records need to be retained, frequency of use and space available. Record retention policies should be developed for each area.	The Finance Department adheres to the record retention schedule as outlined in the Records Retention By-Law 110-76. However, we agree that some of the filing systems could be improved. Progress has been made in this regard. For example, the Accounts Payable filing system has been significantly improved. The aforementioned By-Law is silent with regard to certain Finance Department functions (e.g. budgets, cash management, etc.). Because of this a review has commenced which will identify those files which may be safely destroyed or disposed. Record retention policies will emanate from this identification process.

PART B - Major recommendations repeated from prior memoranda

Area of observation	Recommendation	Management comments
1. Halton Hills water office - receivables	The responsibility for receiving payments and preparing the cash receipt listing should be segregated from the recording of cash receipts and billings and the outstanding invoice reconciliation.	Previous comments Agreed. Steps will be taken to implement the division of duties within the constraints of available staff. Update Some improvements in the division of duties have been made (for example in the area of cash handling). This matter will be addressed in more depth when a new automated billing system is implemented.
2. Information system development	A system design manual and a programming standards manual should be established and documented before any further computer system and programming changes occur.	Previous comments Agreed. Programming standards and a Systems Design life cycle plan are currently being developed by staff. These will be implemented in 1983 for all systems development work. Update Progress is being made in this area. Documentation standards have been completed, and work is proceeding on a system design manual and programming standards.
3. Maintenance Management System (M.M.S.)	The M.M.S. should be modified to ensure that all journal entries and all revenues are recorded.	Previous comments Agreed. It is expected that the M.M.S. will be interfaced directly with the General Ledger in the new F.I.S. in 1984. Update No change.
4. Fixed assets	A detailed fixed asset ledger should be maintained. Insurance coverage on significant fixed assets should be reviewed.	Previous comments These recommendations have not yet been complied with due to staff constraints. However, funds will be budgeted as part of an insurance proposal call planned for 1983. An updated listing of all Regional fixed assets will be required for this purpose. Update The existing fixed asset ledger will be updated as part of an insurance proposal call planned for the fourth quarter of 1983.

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Area of observation	Recommendation	Management comments
5. Payroll system output	Payroll registers should be reviewed by senior officials in each department.	Previous comments Agreed. Current report formats are not conducive to easy scrutiny. A report will be designed which will aid in this task by the end of first quarter 1983. Update It is now anticipated that the report will be available by the end of 1983.
6. Front-ending	Procedures for controlling costs, revenues and reimbursements to front-end developers should be implemented.	Previous comments Agreed. The Department of Finance has recognized the complexity of the accounting and control system needed and since commented on the last time, has commenced on the development of specifications for an automated Management Information System. A report will be presented to Council in December documenting the specifications concerned. Manual procedures have been developed for the interim period. Update A Master Servicing Implementation Report, which highlights the policies and control system for front ended projects, has been prepared and presented to the Committee. Upon receipt of comments from developers and Council approval, implementation (including computerization) will commence. Manual procedures exist currently to administer front-ended projects covered by preliminary agreements.
7. Sewer and water - billing charges	The agreements with the area Hydro Electric Commissions should be revised to indicate the specific charges to be included in the administration fee and the services to be provided.	Previous comments Agreed. Since the last report, the H.E.C.'s have been requested to supply specific information on their charges and services. This will be incorporated in revisions to the updated agreements for 1983 and will allow monitoring by Regional staff. Update It is anticipated that work will commence in the fourth quarter of 1983 to detail the charges and services which will be included in the 1984 agreements.

PART B - Major recommendations repeated from prior memoranda

Area of observation	Recommendation	Management comments
8. Police - miscellaneous revenues	The Board of Police Commissioners should consider requesting the Regional Finance Department to assume the responsibility for the billing and collecting of all revenues.	Previous comments Agreed. As part of the planned preparation of a Regional Financial Control By-law, the responsibility for billing and collecting revenues will be reviewed with the Police Board to see if they will concur. Update Finance staff will be meeting with the Police Administrator in July to review this situation with a view to implementing the recommendation.
9. Police - accumulated sick leave	A policy and a timetable for establishing the reserve for this liability should be determined.	Previous comments We are still awaiting Provincial recommendations which would result in the adoption of the recommended treatment. If this does not transpire, staff will propose policies for handling this liability early in 1983. Update This area will be included in a comprehensive report on Reserves, which will be completed this year.
10. Halton Centennial Manor - Trust Funds	Procedures should be implemented to strengthen controls over the trust funds.	Previous comments Since the last report there has been some separation of duties of the accounting functions. Further improvements will be implemented in 1983. Update Currently Finance staff are working with Social Services staff to review this situation.
11. Workmen's Compensation	An actuarial study should be undertaken to estimate the amount of the liability which may arise and a policy for establishing the reserve for this liability should be determined.	Previous comments Agreed. As mentioned in our previous comments, funds will be included in the 1983 budget for the actuarial study. Update Funding for an actuarial study was approved in the 1983 budget and will be undertaken during the third quarter of this year.

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Area of observation	Recommendation	Management comments
12. Provincial grants - M.T.C., Home for the Aged and Health Department.	The financial information system should be modified to permit efficient claims preparation and cost monitoring.	Previous comments Agreed. The subsidy claim process should be automated. However, to modify the existing financial system is not technically feasible or cost-effective. This need was identified as a mandatory requirement in the Management Information needs evaluation which was completed in the 3rd quarter of 1982. A new F.I.S. should be in place in 1984. Update It is still intended to automate the subsidy claims process once the new F.I.S. is operative in 1984. Subsidy revenue will continue to be monitored on a manual basis for the interim period. Furthermore, interim claims are being made where possible in order to maximize the cash flow to the Region.
13. Overall management information system	Continued emphasis should be given to long term systems planning and implementation.	Previous comments Agreed. Priority has been given to long-term systems planning and this will continue. Identifying management information needs and cost-effective methods of meeting them on an integrated basis is a major part of the Region's systems approach. This was part of the systems plan 1982-1986 adopted by Council in April, 1982. A major hardware study has been completed, and recommendations for providing expanded computing capacity have been prepared and presented to the Committee. An evaluation of integrated financial systems is underway. The first step involved a user needs study and this is complete. Currently, staff are examining available software to determine which package most closely meets Halton's needs. This process nears completion. Update Since the last report new hardware has been acquired and installed, an evaluation of integrated financial information systems has been completed and Council approval has been obtained for acquisition of same.

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Area of observation	Recommendation	Management comments
14. Payroll policies	Attention should be given to developing policies and procedures to cover the full spectrum of payroll processing and reporting.	Previous comments Agreed. During the second half of 1982, additional procedures were implemented resulting in more control in payroll processing. Further work will be done during 1983 to develop other policies and procedures where required. Update It is anticipated that payroll policies will be reviewed during 1983 and updated where required.

PART C - Major observations and recommendations reported in prior memoranda and their resolution

Area of observation	Recommendation	Management comments
1. Disbursement procedures	Procedures should be implemented to ensure supporting documents are cancelled to prevent re-use after the related cheque has been prepared.	This procedure has been implemented.
2. Social service payments	Various changes should be made to the system to ensure that all payments are authorized and properly supported.	The recommendations have been implemented to the extent possible within staffing constraints, and without impacting the required level of service.
3. Budgetary controls - capital projects	Procedures for controlling costs and revenues of capital projects should be implemented.	Procedures for controlling capital projects have been implemented. This includes complete commitment accounting, monthly reviews of all project accounts and the closing out of completed projects (twice annually). Furthermore, Council agendas are being monitored in order to incorporate contract information, when work is tendered. Additional consideration is being given to modifying the computer reports in order to provide more information for management.
4. Advances	Debenture debt should be obtained from the province for the remaining outstanding advance.	Since the previous report, financing has been put in place to cover all these advances.
5. Sewer surcharge	A by-law should be passed authorizing the Region to shut off water for non-payment of the sewer surcharge.	Compensating controls have been implemented which cover this area of observation. For example, any funds remitted in such a situation are applied to the oldest outstanding invoice (thus the customer's sewer charge is eventually paid off). Alternatively, in serious cases the Region is adding the outstanding sewer charge to the property taxes, and collecting the funds in this manner. A clause authorizing shutting off water service for non-payment of sewer charges will be included in the preparation of the 1984 By-law.